2010 REGULAR SESSION
ACTUARIAL NOTE HB 189

House Bill 189 HLS 10RS-263 **Engrossed** **Author:** **Representative Jerome "Dee" Richard** **Date: May 14, 2010** **LLA Note HB 189.02** **Organizations Affected:** **Louisiana State Employees' Retirement System (LASERS)** **EG DECREASE FC**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.** David K. Greer **David K. Greer, CPA** **Assistant Legislative Auditor and** **Director of Performance Audit** **and Actuarial Services**

Bill Header: RETIREMENT/STATE EMPLOYEES: Provides for early retirement of LASERS members with actuarial reduction of benefits; requires abolition of positions vacated by early retirement and permits reestablishment and filling of such positions under limited circumstances.

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	Increased Liability, See Actuarial Analysis Below
Total Five Year Fiscal Cost	
Expenditures	Decreased Costs, See Fiscal Analysis Below
Revenues	Decreased Costs, See Fiscal Analysis Below

Estimated Actuarial Impact:

The chart below shows the estimated increase/(decrease) in the actuarial value of benefits, if any, attributable to the proposed legislation. Note: it includes the present value cost of fiscal costs associated with benefit changes. It does **not** include present value costs associated with other fiscal concerns.

Actuarial Cost (Savings) to:	**Increase (Decrease) in The Actuarial Present Value**
All Louisiana public retirement systems	Cannot Be Determined, See Actuarial Analysis Below
Other Post Retirement Benefits	Increased Liability, Actuarial Analysis Below
Total	Increased Liability, See Actuarial Analysis Below

Estimated Fiscal Impact:

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits. Note: it includes the cash flow effect of the benefit changes on the retirement systems, the Office of Group Benefits, as well as other fiscal concerns.

EXPENDITURES	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**5 Year Total**
State General Fund	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE
Agy Self Generated	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE

REVENUES	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE

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<u>Bill Information:</u>

Current Law

Under current law

A. Regular members of LASERS hired before July 1, 2006 are eligible:

   1. For full normal retirement benefits upon:

      a. Attaining age 60 with 10 years of service, or
      b. Attaining age 55 with 25 years of service, or
      c. Completing 30 years of service.

   2. For actuarially reduced early retirement benefits upon:

      - Completion of 20 years of service at any age.

B. Regular member of LASERS hired on or after July 1, 2006 are eligible:

   1. For full normal retirement benefits upon:

      - Attaining age 60 with 10 years of service.

   2. For actuarially reduced early retirement benefits upon:

      - Not Available

Other members have varying eligibilities for retirement which tend to be more liberal than what is available for regular members.

Proposed Law

HB 189 provides for a special early retirement window that will close June 30, 2013. Under this window, any member of LASERS (regular or otherwise) who is in active employment with the state may retire if he has attained age 50 and has completed 10 years of service. The benefit shall be actuarially reduced from the earliest age that he would normally become eligible for a regular retirement benefit had he continued in service to that age.

Any person who retires under the special early retirement window may not be re-employed by the state of Louisiana or any agency thereof for a period of at least two years.

Any position which becomes vacant as a result of an early retirement pursuant to the early retirement window, or under the provision summarized in A2 above under current law, shall not be filled; must be abolished; and may only be filled or reestablished under severely restricted circumstances. In addition, the state treasurer shall withhold from the agency's general fund appropriation an amount equal to the unspent state general fund appropriation for the abolished position.

Implications of the Proposed Changes

HB 198 provides an opportunity for members of LASERS, who would not otherwise be eligible, to retire early. To the extent that LASERS members elect to retire under these provisions, payrolls of the state and its agencies will be reduced.

<u>Cost Analysis</u>

Analysis of Actuarial Costs

Retirement Systems

HB 189 will have the following effect on LASERS and its contributing employers.

1. The accrued liability attributable to a member retiring under the provisions of this bill may increase or decrease as a result of his retirement. Therefore, the aggregate accrued liability for LASERS may increase or decrease. The increase or decrease should be negligible.

2. The aggregate normal cost percentage may increase or decrease depending on the census characteristics of those who actually retire. The increase or decrease in the normal cost rate should be negligible. The dollar amount of normal cost contributions paid to LASERS will be reduced because total payroll will decrease.

3. The dollar amount of employer contributions necessary to fund the unfunded accrued liability will remain the same. However, the employer contribution rate will increase because total payroll will be less.

The dollar reduction in normal costs and the percentage increase in UAL costs cannot be determined until the number of retirements under this program is known.

Other Post Retirement Benefits

The Office of Group Benefits (OGB) provides medical insurance to state employees who are members of LASERS. The true annual cost is equal to the sum of valid claims submitted by employees during a year plus the cost of administration. When an employee retires from service, he may elect to purchase medical insurance from OGB. As long as he is not eligible for Medicare, the retiree continues to pay the same premium regardless of whether he is actively employed or retired. In light of this, the following conclusions can be drawn:

1. The employee's claims will be the same regardless of whether he is retired or actively employed. Therefore, early retirement under HB 189 will not affect OGB costs.

2. The employee's premium payment will be the same regardless of whether he is retired or actively employed. However, the premium charged to his former employer will increase. Therefore, OGB's revenues will increase as a result of early retirements under HB 189.

HB 189 will also affect the OGB liability under GASB 45 for post retirement medical benefits. Liabilities under GASB 45 will increase. Under accounting rules a liability must be recognized relative to the state's commitment to provide post employment benefits to retired persons. For example, without HB 189, some members of LASERS would retire at age 60. OGB records a liability for each active employee, and that liability is the present value of claims expected to be paid after retirement at age 60. With the enactment of HB 189, OGB will have to adjust its liability to reflect the present value of claims paid after early retirement (i.e., as early as age 50). The additional liability that OGB must record when a person retires early is the value of expected claims between the early retirement age and age 60.

For example, suppose a LASERS member who is 52 years old with 15 years of service elects to retire under the provisions of HB 189. Without HB 189, he would have waited until age 60 to retire. The enactment of HB 189 has the following effects on GASB 45 liabilities:

1. The GASB 45 liability is increased reflecting the 8 additional years from age 52 to age 60 that the employee is retired and receiving post retirement medical insurance because of HB 189.

2. The liability associated with the member's period of retirement after age 60 does not change.

Although it is known that the GASB 45 liability will increase, the size of the increase cannot be measured until the early retirements actually occur. The increase in the GASB 45 liability depends on the number of LASERS members who actually retire early and the census characteristics attributable to them.

Analysis of Fiscal Costs

Reliable estimates of the fiscal impact of HB 189 cannot be made because it is difficult to predict the members who will retire under the program. Nevertheless, the following conclusions can be drawn about fiscal costs during the five year measurement period assuming the program will entice some members to retire.

1. LASERS

   a. The dollar amount of employer and employee contributions received by LASERS (agency self generated revenues) will decrease.
   b. Benefit payments (agency self generated expenditures) will increase.

2. Office of Group Benefits

   a. OGB revenues will increase because medical premiums paid by employers for each early retiree will increase.
   b. OGB expenditures will not change.

3. Employers

   a. Employer contributions in dollars to the LASERS (state general fund expenditures) will decrease.
   b. Employer premium payments to OGB will increase (state general fund expenditures).
   c. Employer payrolls (state general expenditures) will decrease.
   d. Employer revenue (state general fund) will decrease as a result of losing the positions and funding for those positions.

   We assume the reduction in expenditures will be greater than the increase in expenditures for OGB, resulting in an overall reduction in expenditures.

Dual Referral

Senate	**House**
☐ 13.5.1 ≥ \$500,000 Annual Fiscal Cost	☐ 6.8(F) ≥ \$500,000 Annual Fiscal Cost
☐ 13.5.2 ≥ \$500,000 Annual Tax or Fee Change	☐ 6.8(G) ≥ \$500,000 Tax or Fee Increase or a Net Fee Decrease